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To: ACHSD
From: GOHPF
Subject: Highlights from Hospital Standardized Financial Template Filings
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What is the hospital template?

- To provide transparent and comparable performance data about hospitals, in 2005 the legislature enacted a recommendation from Dirigo Health Reform's Commission to Study Maine's Hospitals requiring hospitals to submit financial data to MHDO on a standardized template.
- Today MHDO is posting at its web-site a 216 page report including the data for hospitals' FYs 2005 & 2006, the first two years that hospitals have submitted under the new law. The report will be updated to include 2007 data later this fall.
- The MHDO report simply lists the data, sorted by the peer groups developed by the Maine Hospital Association to reflect similar hospitals,[1] without analysis, so we have prepared a summary of key findings.
- This report provides a baseline. It provides various measures of hospitals' financial conditions. To fully understand a hospital's financial health requires review over multiple years, since individual measures can vary one year to the next, as well as analysis of how various measures relate to one another.

What do the data tell us?

- As seen in Table 1, the industry wide operating margin was $106 mil (3.4%) The median across Maine's 36 acute care hospitals was 2.8%.
- The industry wide total margin (which in addition to operating revenue also includes revenue such as: investment income; gains or losses on sale of fixed assets, equity investments, and joint ventures; and contributions, gifts, and bequests) was $165 mil (5.2%). The median was 3.7%.
- Industry wide cash on hand totaled $1.03 billion, consisting of (1) $472 million in unrestricted cash and short term investments that can be used at hospital discretion and is readily available for current operating and debt service needs, and (2) $557 million in cash and investments set aside by the board and or management, generally for future projects, but that could be used by the board for other purposes at the board's discretion.

[1] Peer Group A, for example, includes the state's four largest hospitals, while Peer Group E includes all the critical access hospitals which are short stay, limited service facilities.

- That $1.03 billion is separate from and in addition to $270 million in donor restricted funds (which includes permanent endowments) and $112 million in trustee held funds set aside as stipulated in debt agreements to meet long term debt obligations.
- Measuring a hospital's cash on hand relative to its operating expenses – a measure called "days cash on hand," which indicates how many days of operation the cash could cover if the hospital were to receive no new revenue – is a useful way to view its cash on hand. There are two different counts of cash on hand: "current," which is the $472 million above, and "including board designated," which adds the $557 million from above. The table below shows the days cash on hand for Maine, the nation, and the northeast.[2]

2006 Median Days Cash on Hand, Maine, US, Northeast[3]

	ME	US	NE
current	24.0	24.1	26.6
including board designated	81.8	61.2	67.7

Do hospitals with more Medicare and MaineCare have lower operating margins than those with more commercial payers?

- As seen in table 2, there is no relationship between payor mix and operating margins: a hospital can have a strong margin with a high public caseload, while another hospital can have a weak margin with a high public caseload. Later this fall MHDO will release price data that could shed greater understanding on the role of payor mix in hospital pricing and financial condition.

Do less efficient hospitals have lower operating margins than those with more commercial payers?

- As seen in table 2, there is no relationship between cost per discharge (the measure to which Dirigo's annual cost increase target applies) and operating margins: a hospital can have a strong margin with a high cost per discharge, while another hospital can have a weak margin with a high cost per discharge. Hospitals have complied with the Dirigo targets and still have healthy margins.

What the data don't tell us

- The data pertain to hospital financial condition and do not tell us anything about what drives health care costs and spending.
- This report shows the two years of data since the hospitals began submitting data on the template. Conclusions about hospital financial health cannot be drawn using these data alone. Reaching such conclusions would require: (a) several more years of data – for example, the industry wide operating margin in 2005 was 6.4% and was likely an anomaly due to the payment of $90 million in historical MaineCare settlements in 2005, since in years prior, both Maine and national median operating margins are typically in the 3% range[4] – as well as (b) deciding how to consider the interplay of the many financial measures in the template when assessing a given hospital's financial health.

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[2] It should be noted that recent developments in the stock market have likely resulted in decreases in hospitals' board designated funds, but we do not have data on the extent to which that is the case.
[3] US and Northeast Data from the *Ingenix Almanac of Hospital Financial and Operating Indicators.*
[4] *Ingenix Almanac of Hospital Financial and Operating Indicators.*

For table 1 see separate document

Table 2. 2006 Operating Margins, Payor Mix, and Cost per Discharge

	op marg		total public	(Medi-care)	(Maine-Care)		cost per dischg
Red.-Fairview	14.0%	Mid-Coast	48%	39%	9%	Blue Hill	$3,483
Stephens	8.7%	Maine Med	50%	36%	13%	Bridgton	$3,527
Down East	7.9%	York	50%	45%	5%	Down East	$3,893
Mid-Coast	7.6%	Mercy	55%	41%	14%	Houlton	$3,994
Maine Med	6.0%	H.D. Goodall	57%	39%	19%	Pen Valley	$4,051
Bridgton	5.8%	CMMC	57%	42%	16%	Mayo	$4,130
Waldo	5.5%	Millinocket	58%	51%	7%	Cary	$4,355
Miles	4.7%	Bridgton	58%	42%	16%	Sebasticook	$4,481
NMMC	4.6%	SMMC	59%	46%	13%	Stephens	$4,579
Sebasticook	4.6%	Maine Coast	59%	46%	13%	Waldo	$4,595
Rumford	4.6%	Waldo	60%	41%	18%	Millinocket	$4,807
St Joseph	4.1%	St Andrews	60%	52%	8%	Franklin	$4,941
Calais	3.9%	Blue Hill	60%	47%	14%	H.D. Goodall	$4,960
Maine General	3.4%	Maine General	61%	45%	15%	Rumford	$5,053
St Mary's	3.4%	Inland	61%	42%	19%	MDI	$5,078
Mayo	3.3%	St Joseph	61%	52%	9%	Mid-Coast	$5,129
Mercy	3.0%	St Mary's	62%	42%	19%	York	$5,687
CMMC	2.8%	EMMC	62%	43%	18%	Parkview	$5,696
MEDIAN	2.8%	MEDIAN	62%	46%	16%	MEDIAN	$5,719
York	2.8%	C.A. Dean	62%	47%	15%	Inland	$5,743
EMMC	2.7%	Stephens	62%	46%	16%	Calais	$5,860
Pen Valley	2.1%	Miles	63%	51%	12%	Maine Coast	$5,907
Houlton	2.1%	Pen Bay	63%	50%	13%	Miles	$5,919
Maine Coast	2.0%	Mayo	65%	48%	17%	Mercy	$6,015
Parkview	1.2%	Franklin	65%	47%	18%	Pen Bay	$6,041
C.A. Dean	1.1%	Calais	65%	45%	20%	Red.-Fairview	$6,043
Millinocket	0.8%	TAMC	66%	49%	17%	SMMC	$6,050
Franklin	0.6%	NMMC	67%	52%	15%	Maine General	$6,107
Pen Bay	0.5%	Rumford	67%	47%	20%	NMMC	$6,322
TAMC	0.3%	MDI	67%	55%	12%	CMMC	$6,335
SMMC	0.1%	Houlton	67%	47%	21%	St Andrews	$6,407
Cary	-0.4%	Down East	68%	45%	22%	St Mary's	$6,428
Blue Hill	-0.6%	Sebasticook	68%	46%	22%	St Joseph	$6,632
H.D. Goodall	-1.1%	Cary	68%	51%	17%	Maine Med	$6,751
Inland	-2.4%	Pen Valley	68%	47%	21%	EMMC	$7,327
St Andrews	-3.4%	Red.-Fairview	70%	51%	19%	C.A. Dean	$7,887
MDI	-4.0%	Parkview	71%	53%	18%	TAMC	$8,195

Payor mix data from MHDO hospital inpatient and outpatient database.

2006 Cost Per Case-Mix- and Outpatient-Volume Adjusted Discharge calculated by Schramm-Raleigh using Hospitals' Medicare Cost Report Data, Following Maine Hospital Assoc. Methodology